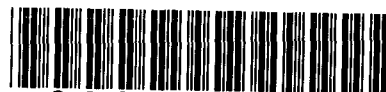


BEFORE THE ARIZONA CORPORATIC



0000141944

JIM IRVIN
Commissioner - Chairman
RENZ D. JENNINGS
Commissioner
CARL J. KUNASEK
Commissioner

IN THE MATTER OF ARIZONA ELECTRIC
POWER COOPERATIVE, INC. AND TRICO
ELECTRIC COOPERATIVE, INC. - JOINT
APPLICATION FOR APPROVAL OF
ELECTRIC SERVICE AGREEMENTS WITH
CYPRUS SIERRITA CORPORATION.

DOCKET NO. E-01773A-98-0576

DOCKET NO. E-01461A-98-0576

DECISION NO. 61209

ORDER

Arizona Corporation Commission

DOCKETED

OCT 29 1998

Open Meeting
October 27 and 28, 1998
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Electric Power Cooperative, Inc. (AEP CO) and Trico Electric Cooperative, Inc. (Trico) are certificated to provide electric service as a public service corporations in the State of Arizona.

2. On September 30, 1998, AEP CO and Trico jointly filed two electric service agreements which propose amendments to previous agreements with Cyprus Sierrita Corporation (Cyprus). The proposed Third Amendment to the Purchase Agreement (Third Amendment) is an amendment to an existing agreement through which Trico sells firm and interruptible power to Cyprus for its Twin Buttes copper mining operations located within Trico's service area at a discounted rate. The original Purchase Agreement (Decision No. 58662) was approved on June 13, 1994, and amended by the Second Amendment (Decision No. 59441) on December 20, 1995. The proposed Amendment No. 1 to the Contingent Well Service Agreement (Amendment No. 1) is an amendment to an existing agreement through which Trico serves part of Cyprus' water pumping load at the Sierrita Tailings Area.

1
2 3. The existing agreements are effective through December 31, 1998, but they would have
3 continued after 1998 if neither party had given advance notice to terminate the agreements. On
4 December 22, 1997, Cyprus had given notice to terminate the agreements. Both proposed
5 amendments would extend the existing agreements through 1999 with some rate reductions. The
6 agreements would continue after 1999 unless terminated by either party with six months notice.

7 4. The otherwise applicable tariff would be Trico's General Service GS-3 rate. Trico's
8 GS-3 rate consists of a monthly fixed charge of \$18.00, a demand charge of \$15.25 per kW, an energy
9 charge of \$0.0585 per kWh, a power factor adjustment to energy usage of 1 percent for each
10 percentage point of power factor below 90 percent, and a fuel and purchased power adjustment of -
11 \$0.006 per kWh.

12 5. Under the existing Purchase Agreement, Cyprus pays a demand charge of \$12.83 per
13 kW for up to 5,000 kW, with a minimum of 3,500 kW per month. There is an energy charge of
14 \$0.02565 per kWh (scheduled to escalate to \$0.0263 for 1999) associated with the first 5,000 kW. An
15 additional 10,000 kW of interruptible overrun energy is made available to Cyprus at a rate equal to
16 the daily market price of wholesale economy energy plus 15 percent. There is a demand charge of
17 \$6.42 per kW on the second 5,000 kW of overrun electricity. The overrun energy may be interrupted
18 by AEPCO or Trico for any reason. In addition, there is a Trico franchise charge of \$0.004 per kWh
19 for all kWh consumed and a power factor adjustment to kW. Neither Trico's nor AEPCO's fuel and
20 purchased power adjuster is applied to Cyprus.

21 6. Under the proposed Third Amendment, the 1999 demand charge would be reduced to
22 \$8.65 per kW for the first 5,000 kW, but the rate would escalate by \$0.10 per kW on January of each
23 year. The energy charge associated with the first 5,000 kW would be \$0.02565 per kWh in 1999 and
24 \$0.0263 beginning in 2000. The demand charge on the second 5,000 kW of overrun electricity would
25 be \$4.32 per kW in 1999 and escalate by \$0.05 per kW each year. The Trico franchise charge would
26 be \$0.0035 per kWh. The rest of the terms would remain the same.

27 7. Based upon actual electricity usage over the last 12 months, Cyprus would pay an
28 overall rate of \$0.040 per kWh during 1999 under the proposed Third Amendment, compared to a rate

1 of \$0.045 per kWh under the existing agreement. These figures include taxes and assessments.

2 8. Under terms of the existing Well Service Agreement, Cyprus buys electricity from
3 Trico to serve water wells used to process tailings resulting from the copper extraction process. The
4 electric service is contingent on AEPCO having an "Economic Resource Surplus," calculated as the
5 amount of AEPCO's net resource capacity that exceeds AEPCO's net firm load for any given hour.

6 9. Under the existing agreement, Cyprus pays a demand charge of \$10.50 per kW, an
7 energy charge consisting of a base energy rate of \$0.0205 per kWh that escalates by \$0.0005 per kWh
8 each year, a Trico franchise charge of \$0.004 per kWh, and a power factor adjustment. Neither
9 AEPCO's nor Trico's fuel and purchased power adjusters apply. The minimum billing demand is
10 1,500 kW.

11 10. Under the proposed Amendment No. 1, the demand charge would be reduced to \$8.65
12 per kW in 1999 and escalate by \$0.10 per kW each year. The Trico franchise charge would be
13 \$0.0035 per kWh. The rest of the terms would remain the same.

14 11. Based upon actual electricity usage over the last 12 months, Cyprus would pay an
15 overall rate of \$0.050 per kWh during 1999 under the proposed Amendment No. 1, compared to a rate
16 of \$0.056 per kWh under the existing agreement. These figures include taxes and assessments.

17 12. Cyprus has explored the feasibility of installing self-generation equipment as an
18 alternative to buying power for its operations. In 1995, Staff reviewed a confidential self-generation
19 study performed for Cyprus and conducted its own analysis of self-generation costs. Staff has found
20 that the costs of self-generation are commensurate with the proposed rates. Cyprus has also
21 considered the possibility of purchasing electricity from competitive suppliers in 1999 but prefers at
22 this time to continue purchasing electricity from Trico under the terms of the existing agreements with
23 the proposed amendments.

24 13. Although Trico and AEPCO would receive less revenue under the proposed
25 amendments than under tariffed rates, revenue would be zero if Cyprus were lost as a customer. In
26 addition, the revenue received from Cyprus more than covers AEPCO's marginal costs of providing
27 electricity to Cyprus.

28 ...

11 17. Staff has also recommended that the Commission make clear that approval of the
12 amendments at this time does not guarantee any future ratemaking treatment of the agreements with
13 CWTUS.

19 3. The Commission, having reviewed the application and Staff's Memorandum dated
20 October 15, 1998, concludes that it is in the public interest to approve the amendments.

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ORDER

THEREFORE, IT IS ORDERED that the proposed electric service amendments with Cyprus be and hereby are approved.

IT IS FURTHER ORDERED that the costs and revenues of these agreements with Cyprus continue to be excluded from the purchased power and fuel adjustors of AEPCO and Trico, and that the costs and revenues continue to be reported as a memo item on the purchased power and fuel adjustor reports.

IT IS FURTHER ORDERED that AEPCO is no longer required to file annual reports concerning these agreements with Cyprus.

IT IS FURTHER ORDERED that approval of the amendments at this time does not guarantee any future ratemaking treatment of the agreements with Cyprus.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION


COMMISSIONER - CHAIRMAN


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 28th day of Oct, 1998.


JACK ROSE
Executive Secretary

DISSENT _____

RTW:BK:yxm vb